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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03 H-01
PA-01 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00
XMB-02 OPIC-03 LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02
OES-07 /122 W
----------086229 061756Z /53
P 061650Z JUN 78
FM AMEMBASSY SANTO DOMINGO
TO SECSTATE WASHDC PRIORITY 4841

C O N F I D E N T I A L SECTION 1 OF 2 SANTO DOMINGO 3070

E.O. 11652: GDS
TAGS: EGEN, DR
SUBJECT: THE DOMINICAN ECONOMY: TRANSITION AND BEYOND

1. SUMMARY: ALTHOUGH MUCH DUST STILL HAS TO SETTLE ON THE ELECTORAL RESULTS IN THE DR, ATTENTION IS NOW TURNING TO THE STATE OF THE ECONOMY, AND TO THE ECONOMIC PROBLEMS WITH WHICH THE NEW GOVERNMENT WILL BE CONFRONTED. OUR PRIMARY CONCERNS ARE WITH THE SITUATION THE NEW GOVERNMENT WILL DISCOVER AUGUST 16, THE EXTENT OF ASSISTANCE THEY WILL NEED, AND THE ABILITY OF THE USG, OTHER GOVERNMENTS, AND INTERNATIONAL FINANCIAL INSTITUTIONS TO RESPOND. WITHOUT QUESTION, 1978 AND 1979 WILL BE LEAN YEARS REQUIRING CAREFUL MANAGEMENT OF EXISTING RESOURCES, AS WELL AS GREATER RELIANCE ON EXTERNAL FINANCING.
END SUMMARY.

2. AS INDICATED IN THE LATEST ECONOMIC TRENDS REPORT (A-20 DATED MARCH 7, 1978), REAL GNP ROSE IN 1977 BY ONLY 3.3 PERCENT, INFLUENCED BY CONTINUED LOW SUGAR PRICES, HIGH OIL IMPORT COSTS, A 16.4 PERCENT INFLATION RATE, AND A POPULATION GROWTH OUTPACING GAINS IN FOOD PRODUCTION.

3. 1978 PROMISES TO BE WORSE. SUGAR PRICES IN 1978 REMAIN
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CRITICALLY LOW, ASSURING A CONTINUED SCARCITY OF NEEDED FOREIGN EXCHANGE (SUGAR EARNINGS TRADITIONALLY ACCOUNT FOR ABOUT 60 PERCENT OF THE DR'S EXCHANGE EARNINGS). ALTHOUGH OVERALL AGRICULTURAL OUTPUT SHOULD BE HIGH, IN VIEW OF GENERAOUS RAINS, EXPORT CROPS WILL BENEFIT LESS THAN THOSE FOR LOCAL CONSUMPTION. A FREEZE HAS BEEN IN EFFECT ON MEAT EXPORTS SINCE MAY 1977, REFLECTING THE GODR'S DESIRE TO INCREASE SUPPLY FOR LOCAL CONSUMP-

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TION. TOURISM, WHICH ENJOYED A BUMPER SEASON EARLIER THIS YEAR, HAS VIRTUALLY DRIED UP AS OF MAY 17. THERE IS NO WAY TO PREDICT WHEN TOURIST CONFIDENCE IN THE DR'S STABILITY WILL RETURN. LIKE-WISE, BUSINESS CONFIDENCE HAS YET TO RECOVER FROM THE EVENTS OF ELECTION DAY. LOCAL DEMAND FOR PARALLEL MARKET DOLLARS HAS IN-CREASED SUBSTANTIALLY SINCE MAY 16, AS MIDDLE AND UPPER CLASS DOMINICANS SEEK TO HEDGE THEIR ELECTION BETS. THIS HAS PUSHED THE CURRENT STREET RATE TO US $1.00 - RD $1.28. FEARS EXIST THAT THE CURRENT OFFICE HOLDERS WILL SACK THE TREASURY WHETHER DIRECTLY OR INDIRECTLY (E.G. PRESIDENT BALAGUER RECENTLY GAVE PAY RAISES - THE FIRST IN 12 YEARS - TO ALL POLICE AND MEMBERS OF THE ARMED FORCES AT AN ESTIMATED ANNUAL COST OF $30 MILLION). CURRENT GODR ESTIMATES PUT 1978 CURRENT ACCOUNT DEFICIT AT $250 MILLION, OVERALL BALANCE OF PAYMENTS DEFICIT TO $200 MILLION.

4. THE MOST PRESSING PROBLEMS FACING THE NEW GODR ADMINISTRATION WILL BE: A VERY TIGHT DOMESTIC BUDGETARY SITUATION; A SIZEABLE BALANCE OF PAYMENTS DEFICIT; AND CONTINUED DEBT ARREARAGES. INTERNALLY, THE PRD LED GOVERNMENT WILL LIKELY BE GREETED BY A CONFLICT BETWEEN THE HIGH EXPECTATIONS OF ITS POORER SUPPORTERS TOWARD LOWER COSTS FOR BASIC NECESSITIES (PRIMARILY FOOD), AND THE EXPECTATIONS OF HIGHER AGRICULTURAL PRICES BY THE FARMERS WHO DOMINATE THE PARTY. ANOTHER FEARED CONFLICT IS THE RECOGNIZED NEED FOR HIGHER ELECTRICITY RATES, AND THE POLITICAL UNPOPULARITY OF SUCH AN INCREASE. YET ANOTHER CONFLICT IS THE PRD'S RECOGNITION THAT THEY WILL NOT BE IN A POSITION TO INSTITUTE MAJOR CHANGES
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OVERNIGHT (THEY ARE AWARE OF THE LACK OF FUNDS WHICH WILL BE AT THEIR DISPOSAL, AND OF THE PLANS OF THE MILITARY TO KEEP A CLOSE WATCH AGAINST RADICALISM), BUT THEY KNOW THE MASSES EXPECT CHANGE. ALTHOUGH THE GODR HAS OPERATED CONSISTENTLY ON THE BASIS OF A BALANCED BUDGET REFLECTING PRESIDENT BALAGUER'S PERSONAL AVERSION TO DEFICIT FINANCING, THE BUDGETARY SITUATION FROM AUGUST 15 TO DECEMBER 31 IS EXPECTED TO BE EXTREMELY TIGHT AND PROBABLY IN DS ICIT. THE PAY RAISES TO THE POLICE AND ARMED FORCES, A CHANGE IN THE COFFEE AND CACAO EXPORT TAXES WHICH BENEFITS THE PRODUCERS, AND EXORBITANT GOVERNMENTAL EXPENDITURES IN THE PRE-ELECTORAL PERIOD DO NOT BODE WELL FOR THE FIRST FEW MONTHS IN
THE NEW GOVERNMENT.

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C O N F I D E N T I A L SECTION 2 OF 2 SANTO DOMINGO 3070

5. OF PERHAPS GREATEST IMPORTANCE ON THE POSITIVE SIDE IS THE DR'S DEBT/SERVICE RATIO WHICH STANDS AT 7.7, ONE OF THE LOWEST IN THE REGION. BASED ON PRELIMINARY INDICATIONS, EMBASSY BELIEVES NEW GOVERNMENT MAY BE MORE AMENABLE TO FOREIGN BORROWING, AT LEAST TO ASSURE CONTINUED STABILITY IN THE EARLY PART OF THE NEW ADMINISTRATION. CURRENT US AND IFI ECONOMIC ASSISTANCE ACTIVITIES (AND POSSIBILITIES) ARE AS FOLLOWS:

A. AID. AID HAS TWO ACTIVE LOANS AT PRESENT : A $4.8 MILLION HEALTH SECTOR LOAN, AND A $15 MILLION AGRICULTURAL SECTOR LOAN. PLANS FOR FUTURE AID ACTIVITIES INCLUDE A SECOND HEALTH SECTOR LOAN ($9 MILLION), AND EDUCATION SECTOR LOAN ($7 MILLION), AND A POSSIBLE $10 MILLION LOAN TO THE DOMINICAN DEVELOPMENT FOUNDATION TO EXPAND THIS ORGANIZATION'S RURAL DEVELOPMENT PROGRAMS.

B. IDB. IDB IS THE LARGEST CONCESSIONAL LENDER TO THE DOMINICAN REPUBLIC WITH AN ACTIVE LOAN PORTFOLIO OF $163.8 MILLION. THE LARGEST PROPORTION OF ITS FUNDS SUPPORT THE GODR EMPHASIS ON PHYSICAL INFRASTRUCTURE INVESTMENT ($44.1 MILLION, ELECTRIC POWER; $35.5 MILLION, IRRIGATION; $19.5 MILLION, SANTO DOMINGO WATER SUPPLY). AGRICULTURE RECEIVED $27.4 MILLION; INDUSTRY, $10 MILLION, AND UNIVERSITY EDUCATION $3,9 MILLION. LOANS PROGRAMMED FOR FUTURE ACTIVITY INCLUDE AN AGRICULTURE LOAN, A HIGWAY LOAN,
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A POTABLE WATER LOAN AND A TOURISM LOAN.

C. IBRD. THE IBRD HAS A $5.0 MILLION LOAN TO BUILD AN EQUIP CLINICS FOR FAMILY PLANNING AND PREVENTIVE HEALTH SERVICES. A SECOND $5.0 MILLION DOLLAR LOAN WAS APPROVED TO SUPPORT PLANS TO CREATE AND ESTABLISH A HIGHWAY MAINTENANCE PROGRAM. THE IBRD ALSO HAS AN $8.0 MILLION LOAN FOR PRIMARY AND VOCATIONAL EDUCATION AND A $21.0 MILLION LOAN TO SUPPORT INFRATUR'S TOURISM DEVELOPMENT

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PROGRAM IN THE NORTH COAST. IBRD'S PLANS FOR THE FUTURE INCLUDE
A SECOND TOURISM LOAN, TWO IRRIGATION LOANS AND A LON TO
MODERNIZE AND REHABILITATE THE STATE-OWNED SUGAR MILLS.

6. IN VIEW OF THE HISTORICAL US CONCERN WITH THE DEMOCRATIC
VIABILITY OF THE DOMINICAN REPUBLIC, THE CLOSE RELATIONSHIP WE
HAVE HAD WITH THE BALAGUER ADMINISTRATION, AND THE RECENT
STRONG US STAND IN SUPPORT OF FREE AND FAIR ELECTIONS, THE US
HAS AN IMPORTANT STAKE IN PROMOTING ECONOMIC PROGRESS IN THIS
COUNTRY UNDER A DEMOCRATIC REGIME. THE NEW PRD ADMINISTRATION
EMERGING FROM THE ELECTION WILL LOOK TO US AS A MAJOR SOURCE OF
HELP, AND THERE WILL BE CONSIDERABLE INTEREST NOT ONLY IN THIS
COUNTRY, BUT ALSO BY OTHER COUNTRIES OF LATIN AMERICA IN HOW THE
US RESPONDS. THE EMBASSY RECOMMENDS, THEREFORE, THAT THE USG BEGIN
NOW TO CONSIDER HOW IT MIGHT ASSIST THE NEW ADMINISTRATION IN
THE DR TO MEET ITS PRESSING ECONOMIC PROBLEMS/ AMONG OPTIONS THAT
OCCUR TO THE EMBASSY ARE THE FOLLOWING:

A. ENCOURAGE NEW GOVERNMENT TO APPROACH IFI'S AND INDICATE US
SUPPORT IN PRINCIPLE;

B. ENCOURAGE PAYMENT OF DEBT NOW IN ARREARS SO THAT USG IS NOT
CONSTRAINED IN ABILITY TO ASSIST;

C. APPROVE A PL 480 PROGRAM FOR FY78 AS REQUESTED, AND NEGOTIATE
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AN EXPANDED MULTI-YEAR PL 480 PROGRAM, BEGINNING WITH FY79;

D. MAKE AVAILABLE ADDED CCC CREDIT;

E. MAKE AVAILABLE ADDED EXIM CREDIT (AFTER SETTLEMENT OF
ARREARAGES);

F. CONSIDER POSSIBLE EXPANSION OF AID PROGRAM, INCLUDING HOUSING
INVESTMENT GUARANTEES.

G. GIVE ACTIVE SUPPORT TO GODR REQUEST FOR INCREASED SUGAR
EXPORT QUOTA UNDER ISA (EMBASSY NOTES THAT PROMISED SUPPORT
WAS NOT REPORTED IN LONDON 8092 AND ASSUMES IT WILL
BE HANDLED IN WORKING GROUP).

H. BE SYMPATHETIC IN NEGOTIATING TEXTILE BILATERAL.

I. ENCOURAGE JOINT DR/HAITI PROJECTS, AS WELL AS STRICTLY DR
PROJECTS UNDER UMBRELLA OF WORLD BANK CARIBBEAN GROUP.
YOST

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